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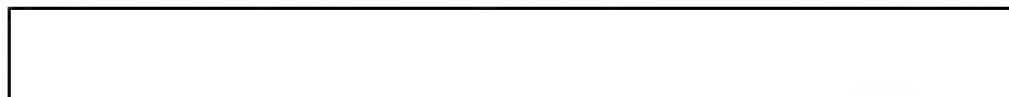
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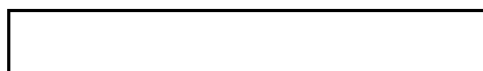
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Chile: President Frei is deeply concerned about the impact of the Peruvian coup on Chilean politics and military attitudes.

In a talk with the US ambassador on 8 October, Frei said that with the military in power in Peru and Argentina and a military supported government in Bolivia, Chileans believe that their democracy is isolated. Because of this, Frei thinks the Chilean military and police will probably press for more modern equipment in order to provide for defenses against Peru and Argentina and to improve their capability to deal with urban terrorism. Although the Chilean military is strongly committed to the maintenance of democratic institutions, Frei believes that they would not accept a government that included Communist participation or overt control.

Frei also believes that the public is badly disillusioned with the present political parties in Chile, and that the violent tactics of leftist extremists contribute to this disillusionment. The terrorism has increased in recent months, giving an impression that the government is not in control. Should the feelings of disillusionment increase, Frei believes that it would benefit aged former president Jorge Alessandri, a prospective candidate as an independent rightist in the 1970 presidential election.

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[Panama: A deal concluded on 9 October between President Arias and a leader of the national guard will probably diminish, but not end, the plotting by disgruntled military officers.

Lt. Col. Urrutia, who made the deal with Arias, is to take command of the guard today--several weeks earlier than expected--and most of the young commanders will be transferred as previously planned. Guard Commandant Vallarino and his deputy are also to be retired today.

These new assignments by the President may not satisfy the younger officers.

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The other officers probably feel that they have been abandoned. They can be expected to continue to watch the President very closely. Should it appear that Arias is about to reorganize the guard, these officers may well attempt to move against him.

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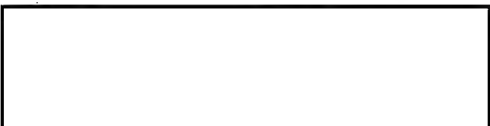
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